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TAGS: [EAIR](#) [ECON](#) [ETRD](#) [EINV](#) [RS](#)
SUBJECT: WILL PROPOSED AEROFLOT-ROSAVIA DEAL UNDERMINE
PURCHASE OF BOEING AIRCRAFT?

REF: 09 MOSCOW 3078

Classified By: ECONMINCOUNS Matthias Mitman for reasons 1.4(b)
and (d)

11. (SBU) On December 30, during a meeting chaired by First Deputy Prime Minister Igor Shuvalov, Minister of Transport Igor Levitin reportedly suggested that control over new Russian airline RosAvia be transferred to Aeroflot. Under the proposal, Russian state corporation Rostekhnologia, 51% owner of RosAvia, would exchange all of its shares for a 28% stake in Aeroflot which is currently owned by National Reserve Corporation (NRC). Levitin expects the swap would help Aeroflot become a leading airline not only in Russia, but potentially in Europe as well. The possible acquisition will be discussed by the GOR on January 30.

12. (SBU) The plan has serious implications for Boeing, which submitted a bid in October 2009 to supply 50 narrow bodied aircraft (with an option of 15 more) to RosAvia, a project valued at approximately \$4 billion. It is unclear how Aeroflot,s potential acquisition of Rostekhnologia,s aviation assets would affect the RosAvia tender. In the meantime, meetings between the Boeing and Rostekhnologia teams are scheduled on January 15. End summary.

Boeing Invited to Tender

13. (SBU) On October 16, 2009, Boeing Russia submitted a bid, at the invitation of Rostekhnologia, to supply up to 65 passenger aircraft (737-800s)to RosAvia. This project is valued at approximately \$4 billion and may include Ex-Im financing (reftel). Boeing is competing against Airbus and Russia,s United Aircraft Corporation (which is not viewed to be a viable competitor). In December, Director General of Rostekhnologia, Sergei Chemezov told us that the final decision to purchase aircraft, originally scheduled for mid-December, would be delayed until the end of January, claiming that Rostekhnologia needed more time to review a &more attractive8 proposal from Airbus.

14. (SBU) Established in late 2007, Rostekhnologia is a Russian state corporation set up to facilitate the development, production and export of hi-tech industrial products for civilian and military purposes. RosAvia is a newly formed national airline that is 51% owned by Rostekhnologia and 49% owned by the City of Moscow. RosAvia has absorbed regional Russian carriers that have struggled

amid the global financial downturn, such as Rossiya (City of St. Petersburg airline), Vladivostok Air and possibly Atlant-Soyuz (City of Moscow airline). The inclusion of Atlant-Soyuz in the RosAvia consortium has been a point of debate given the airline's heavy debt load.

Aeroflot-RosAvia Deal

15. (SBU) According to various media and industry sources, on December 30, during a meeting chaired by Shuvalov, Minister of Transport Levitin suggested that control of RosAvia be transferred to Aeroflot. Rostekhnologia would receive the 28% stake in Aeroflot, currently owned by NRC, controlled by Alexander Lebedev, a Russian banker (who has reportedly agreed to sell). Although the structure of the deal has yet to be established, Aeroflot would apparently buy the stake from NRC and swap it for control in RosAvia.

16. (SBU) This measure looks to be a further step in consolidation of Russian airlines in a time of crisis. While most analysts voice the opinion that taking over RosAvia with its large debt burden and near-bankrupt small airlines is not in Aeroflot's best interest, others highlight that the deal would allow Aeroflot to strengthen its leadership in the domestic market, including the Russian Far East. Levitin reportedly believes that the swap would help Aeroflot become a leading airline not only in Russia but potentially in Europe as well. Media and industry sources say that Aeroflot

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officials
will discuss the possible acquisition of RosAvia with
Shuvalov
and Rostekhnologia officials, on January 30.

In the Meantime, Boeing is Proceeding with Tender Negotiations

17. (C) Dr. Sergey Kravchenko, President of Boeing Russia and CIS, told us that Levitin's proposal regarding RosAvia was not received well by Rostekhnologia and that an agreement on the ownership structure of RosAvia could not be reached between Rostekhnologia and the City of Moscow. As a result, RosAvia is focusing on Rossiya as a central airline, while Chemezov asked St. Petersburg's Governor Matveenko to play an active role in RosAvia's projects. Kravchenko confirmed that a final decision regarding RosAvia has not yet been made and that Deputy PM Shuvalov, Minister of Economic Development Nabiullina and Rostekhnologia Director General Chemezov are involved in the discussions. Kravchenko does not believe the conditions of the tender have changed. He stated that Boeing is proceeding with the bid while meetings between the Boeing and Rostekhnologia teams are scheduled on January 15.

Comment

18. (C) Transferring control over RosAvia to Aeroflot is a complex process that could not be accomplished quickly. Different forms of ownership of RosAvia's member airlines (some private and some state owned), and the debt burden of most of them, makes the process challenging for the Russian decision makers. Furthermore,

the question remains over Aeroflot,s ability to run a much larger number of airlines, since its management of two existing subsidiaries (Aeroflot Don and Aeroflot Nord) have not led to significant improvements. Notwithstanding these hurdles, a decision to transfer control over RosAvia to Aeroflot is still possible, considering the pressure from Minister Levitin. If it goes through, the tender to purchase additional aircraft could be adversely affected.

9.(C) Post will continue to advocate with GOR on behalf of Boeing for its tender and will report additional details on RosAvia tender developments as they become available. End Comment
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